

BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF HAWAII

In the Matter of the Application )

of )

MOLOKAI PUBLIC UTILITIES, INC. )

For review and approval of rate )  
increases; revised rate schedules; and )  
revised rules. )

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Docket No. 2009-0048

PUBLIC UTILITIES  
COMMISSION

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FILED

**MOLOKAI PUBLIC UTILITIES, INC.'S RESPONSES  
TO THE DIVISION OF CONSUMER ADVOCACY'S  
FOURTH SUBMISSION OF INFORMATION REQUESTS**

and

**CERTIFICATE OF SERVICE**

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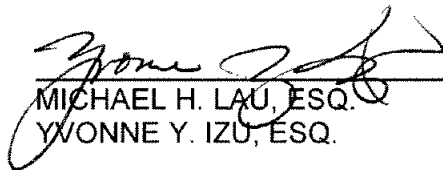
BEFORE THE PUBLIC UTILITIES COMMISSION  
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**MOLOKAI PUBLIC UTILITIES, INC.'S RESPONSES  
TO THE DIVISION OF CONSUMER ADVOCACY'S  
FOURTH SUBMISSION OF INFORMATION REQUESTS**

COMES NOW, MOLOKAI PUBLIC UTILITIES, INC. ("MPU"), by and through its attorneys, Morihara Lau & Fong LLP, hereby submit its Responses to the Division of Consumer Advocacy's Fourth Submission of Information Requests consistent with the Stipulated Regulatory Schedule (Exhibit "A") contained in the Stipulated Prehearing Order, filed on November 6, 2009.

DATED: Honolulu, Hawaii, November 23, 2009.

  
\_\_\_\_\_  
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**MOLOKAI PUBLIC UTILITIES, INC.'S RESPONSES TO THE DIVISION OF  
CONSUMER ADVOCACY'S FOURTH SUBMISSION OF INFORMATION REQUESTS**

**DOCKET NO. 2009-0048**

**CA-IR-57**

**Ref: Response to CA-IR-2.**

Please provide a copy of any separate analysis or study that analyzes the appropriate allocation of costs of the Pu'u Nana Treatment Plant between Wai'ola O Molokai and the Company.

**RESPONSE:**

The Company does not have any separate analysis or study that analyzes the allocation of costs and therefore cannot provide as a response to this IR.

**SPONSOR:**

Robert O'Brien

**MOLOKAI PUBLIC UTILITIES, INC.'S RESPONSES TO THE DIVISION OF  
CONSUMER ADVOCACY'S FOURTH SUBMISSION OF INFORMATION REQUESTS**

**DOCKET NO. 2009-0048**

**CA-IR-58 (cont.)**

**CA-IR-58**                    **Ref: Response to CA-IR-5.**

- a.     If the Well 17 permit is not allowed, please discuss all contingency plans identified and considered.

**RESPONSE:**

Should the CWRM not allow continued use of Well 17, MPU would have no immediate source of water for its customers and, unless there were some temporary allocation put in place, there is no known immediate solution. In the longer term, desalinization is the only practicable alternative plan. Drilling another well on Molokai will require a water use permit from the State Commission on Water Resource Management ("Water Commission"), which will be subject to the same controversies that surround the Well 17 permit issue. Similarly, diverting more surface water would require the Water Commission to amend interim instream flow standards, which would also be subject to the many of the same controversies that surround the Well 17 permit issue. Obtaining water from other water purveyors on the island (County DWS, DHHL) is not an option as those purveyors themselves are water-short and are seeking additional sources of water.

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**CA-IR-58 (cont.)**

- b. Of the plans that have been identified, please identify the preferred contingency plan, explain why it is preferred and what actions have been taken to initiate any necessary steps to enable that contingency.

**RESPONSE:**

The preferred option is desalinization. Current desalinization processes are highly efficient. It would also reduce transmission costs, water treatment costs, and alleviate concerns over Well 17's impact on the Kualapu'u aquifer. No action has been taken on these options other than an assessment of the entitlements required as initial permitting, investigation, and development of a desalinization plant is costly.

As also indicated in MPU's Response to CA-IR-5d, investigations are being made, in coordination with the State, on the ability to access federal funds to finance a desalinization plant on the west end of Molokai.

- c. If not evident, please identify the probable impact on customers in terms of rate impact and reliability under the preferred contingency.

**RESPONSE:**

Until a complete analysis is done, the potential impact on customers in terms of rate is not readily apparent. The

**MOLOKAI PUBLIC UTILITIES, INC.'S RESPONSES TO THE DIVISION OF  
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**CA-IR-58 (cont.)**

capital cost of the new desalinization plant, energy source, and financing arrangements, among other things, are not known at this time. It is assumed that the ratepayers will be responsible for at least some of the capital costs and the costs of operating and maintaining the desalinization plant. On the other hand, with a desalinization plant, ratepayers would no longer be assessed capital, operating and maintenance costs associated with the Puu Nana water treatment plant and Well 17, and costs for using the MIS for water transportation.

**SPONSOR:**

Robert O'Brien/Peter Nicholas

**MOLOKAI PUBLIC UTILITIES, INC.'S RESPONSES TO THE DIVISION OF  
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**DOCKET NO. 2009-0048**

**CA-IR-59**

**Ref: Response to CA-IR-5.**

- a. In its attachment CA-IR-5, the Company indicates that it "is technically violating the Water Code." (See page 1 of Attachment CA-IR-5a) Please identify all possible negative ramifications from being "technically" in violation of the Water Code.

**RESPONSE:**

Pursuant to HRS § 174C-15(a), the Water Commission may enforce its rules (no withdrawal of water from a water management area without a water use permit) by suit for injunction. In addition, pursuant to HRS § 174-15(b) a violator may be subject to a fine not to exceed \$5000 per day.

- b. Please identify the probability of any action being taken within the test year.

**RESPONSE:**

It is highly unlikely that the Water Commission will take any type of enforcement action against MPU within the test year. The Water Commission staff is cognizant that MPU continues to withdraw water from Well 17 without a permit, but is also aware that there is currently no alternative source of water for domestic needs on the west end of Molokai, and

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**CA-IR-59 (cont.)**

that the public health and safety will be in jeopardy if MPU is  
enjoined from continuing to withdraw water from Well 17.

**SPONSOR:** Robert O'Brien/Peter Nicholas



**MOLOKAI PUBLIC UTILITIES, INC.'S RESPONSES TO THE DIVISION OF  
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**DOCKET NO. 2009-0048**

**CA-IR-60**

**Ref: Response to CA-IR-5.**

- a. The Company's response indicates that management decided not to pursue the Water Commission's explicit approval to withdraw water. It appears that this action has impaired the Company's or any successor's ability to successfully withdraw water with tacit approval. Please discuss.

**RESPONSE:**

MPU does not understand this Information Request. The only explicit approval from the Water Commission to withdraw water from Well 17 was the granting of the water use permit on December 19, 2001. That decision, however, was vacated by the Hawaii Supreme Court on December 26, 2007. During the period from December 2001 through December 2007, the water use permit was utilized to provide water to MPU customers.

- b. The Company's response indicates that management might have filed a timely existing use application but withdrew it and failed to re-submit an application within the prescribed time. It appears that this action has impaired the Company's or any successor's ability to successfully withdraw water under an existing use application. Please discuss.

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**CA-IR-60 (cont.)**

**RESPONSE:** MPU generally concurs with this assessment. It should be noted, however, that the decision to withdraw and re-file the water use permit application was made by the prior owners of MPU and the current owners are not privy to the strategic considerations surrounding the decision.

**SPONSOR:** Robert O'Brien/Peter Nicholas

**MOLOKAI PUBLIC UTILITIES, INC.'S RESPONSES TO THE DIVISION OF  
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**DOCKET NO. 2009-0048**

**CA-IR-61**

**Ref: Response to CA-IR-5.**

Please discuss whether the provision of water and/or wastewater utility services (or ensuring that such services were available) was a condition that had to be met in order to develop any of the properties currently served by MPUI and developed by any existing or formerly existing affiliate.

**RESPONSE:**

It is the Company's belief that no such condition was imposed.

**SPONSOR:**

Robert O'Brien/Peter Nicholas

**MOLOKAI PUBLIC UTILITIES, INC.'S RESPONSES TO THE DIVISION OF  
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**DOCKET NO. 2009-0048**

**CA-IR-62**

**Ref: Response to CA-IR-6.**

- a. In its response, the Company provides a copy of a letter dated April 9, 2008 (Attachment CA-IR-6e (Part A)). The letter indicates that the situation would be reviewed prior to June 30, 2008. Please provide a copy of any follow up to this letter.

**RESPONSE:**

There has been no further communication from DOA.

- b. This same letter indicates that an environmental review would be necessary to facilitate any transfer of the responsibility for the water systems. Please discuss any and all steps taken to complete such an environmental review to facilitate any such transfer.

**RESPONSE:**

As we read the letter, an environmental review is required in order for the Department of Agriculture to enter into a new agreement for rental of space in the MIS, and not to facilitate transfer of responsibility for the water system.

- c. The same letter requests the plans "regarding your Well 17 and Mountain Water System connections to the MIS." Please provide a copy of any response to this request.

**RESPONSE:**

There has been no response. As we understood the letter, the Department of Agriculture was requesting that it be kept

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**CA-IR-62 (cont.)**

apprised of any plans to transfer responsibility for Well 17  
and the Mountain Water System. As there are no plans to  
do so, there has been no response.

**SPONSOR:** Robert O'Brien/Peter Nicholas

**MOLOKAI PUBLIC UTILITIES, INC.'S RESPONSES TO THE DIVISION OF  
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**DOCKET NO. 2009-0048**

**CA-IR-63**

**Ref: Responses to CA-IR-6 & 7.**

- a. It has come to the attention of the Consumer Advocate that certain facilities may be installed to draw additional water from Well 17 to provide water service for certain purposes within DHHL areas. Such provision is related to the failure of a well or wells in Kualapuu. Please confirm and discuss.

**RESPONSE:**

It has been a common practice on Molokai for utilities to help each other in emergencies such as the failure of wells by adjacent utility providers. In the past, both the County and DHHL have provided water to each other during times of emergency and well breakdowns. In 2007, when Well 17 failed, MPU had enough storage to cope during the time the Well was being repaired and did not have to avail itself of emergency water from either the County or DHHL.

Under the current emergency, both DHHL wells have failed and DHHL was facing a situation where its customers would be without water for up to six weeks. This would have meant the closure of the Molokai airport, and schools such as Kualapu'u School. FEMA, the Molokai Fire Emergency Department and DHHL could only get 100,000 gals per day from the County well in Kulaapuu and asked for MPU's help.

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**CA-IR-63 (cont.)**

Without MPU's assistance, a state of emergency would have been declared. On Friday November 6, 2009, an emergency meeting concerning the DHHL well breakdown was held and DHHL asked MPU to temporarily supply water to Kualapu'u School from Monday November 9, 2009 to prevent school closure. MPU was also asked if it would allow an emergency temporary pipeline to be connected between Well 17 and the DHHL system. MPU agreed and was glad to assist to ensure that the homesteaders, schools and the airport would continue to receive water.

Over the weekend of November 7th and 8th, MPU and Wai'ola O Molokai staff, on their own time and at no expense to either utility, assisted DHHL staff in preparing connections to link Well 17 with equipment and pipes supplied by DHHL and Monsanto. This work continued outside work hours until the link was completed during the week of November 9th. There was no cost incurred by MPU for the assistance its employees provided.

MPU has informed the Water Commission and the State Health Department of its actions. The PUC was also informed of this emergency assistance.

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**CA-IR-63 (cont.)**

DHHL has agreed to pay MPU the cost of the energy used to pump water to the DHHL during this emergency. This cost will be billed and invoiced to DHHL on a weekly basis. As this was only a temporary measure, no overhead recovery or recovery of general maintenance costs for Well 17 was sought.

Whether there is a permanent hook up of all Wells in the Kualapuu aquifer to prevent loss of service to all consumers is a matter for further discussion at a future date. Should the decision be made to link all Wells on a permanent basis, MPU will pay its share of the costs to ensure that its consumers have protection against Well failures and interruptions of supply in the future.

- b. It is the Consumer Advocate's understanding that in order to provide the water to the DHHL areas, additional infrastructure will be placed. Please discuss whether the infrastructure will be placed by the Company or a regulated affiliate.

**RESPONSE:**

See Response to CA-IR 63a above.



**MOLOKAI PUBLIC UTILITIES, INC.'S RESPONSES TO THE DIVISION OF  
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**CA-IR-63 (cont.)**

- c. Please indicate how the infrastructure in question will be recorded, including, but not limited to, ownership of the infrastructure.

**RESPONSE:** See Response to CA-IR 63a above.

- d. Please indicate who will be responsible for the operation and maintenance of the infrastructure.

**RESPONSE:** The infrastructure is not likely to require maintenance until an emergency occurs, at which time its operation and necessary maintenance would be the responsibility of the particular utility who requests emergency supply.

- e. Please provide a detailed discussion of how the costs will be recovered and allocated among all applicable parties. In addition, please indicate the rate or rates that will be charged for this service.

**RESPONSE:** See response to Ca-IR 63a above.

- f. Please provide a detailed discussion of the impact, if any, of the reliance on MIS for delivery of water from Well 17 to other parts of the island, including those parts that are served by the Company.

**RESPONSE:** MPU does not understand this IR. Impacts of utilizing the MIS for delivery of Well 17 water are described in

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**CA-IR-63 (cont.)**

Attachment CA-IR-6a (Part A). If this IR is in reference to the emergency link to the DHHL system, there is no impact as the link occurs prior to the delivery of water to the MIS system.

- g. Please discuss whether any parts and labor used to install the infrastructure in question represent regulated utility property or resources. If so, please identify each part and discuss how the costs associated with that resource will be recovered.

**RESPONSE:** See response to CA-IR 63a above.

**SPONSOR:** Robert O'Brien/Peter Nicholas

**MOLOKAI PUBLIC UTILITIES, INC.'S RESPONSES TO THE DIVISION OF  
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**CA-IR-64**

**Ref: Response to CA-IR-7.**

The response to part (b) includes "specifications" for the treatment plant, but does not provide a summary description of what the plant does for the provision of water service and how it impacted the backwash issue. Please provide that discussion that indicates how the plan addressed the backwash issue (i.e., the "waste" of water).

**RESPONSE:**

The water treatment plant ("WTP") was constructed to comply with a Federal Environmental Protection Agency ("EPA") mandate to improve the water provided to the Company's customers. The completion of the WTP also provided an improvement in the amount of the backwash water loss as a percent of water treated by the WTP and delivered to the customers.

**SPONSOR:**

Robert O'Brien

**MOLOKAI PUBLIC UTILITIES, INC.'S RESPONSES TO THE DIVISION OF  
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**CA-IR-65**

**Ref: Response to CA-IR-9.**

- a. In the Company's response, only one water quality complaint was discussed. Please confirm that only one water quality complaint was received during the period from the last rate proceeding until the current year.

**RESPONSE:**

It is confirmed that there was only one water quality complaint received by the Company from the last rate proceeding to the current year.

- b. If the above understanding is incorrect, please provide the information requested in CA-IR-9.

**RESPONSE:**

Not applicable.

- c. If not already included in the response to part (b) above, please provide a list of all complaints received by the Company since the last rate proceeding in Docket No. 02-0371. For each complaint, please provide the following:

1. Date of the complaint;

**RESPONSE:**

Not applicable.

2. Description of the complaint;

**RESPONSE:**

Not applicable.

**MOLOKAI PUBLIC UTILITIES, INC.'S RESPONSES TO THE DIVISION OF  
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**CA-IR-65 (cont.)**

3. Action taken to address the complaint;

**RESPONSE:** Not applicable.

4. Date of the action taken; and

**RESPONSE:** Not applicable.

5. Any follow-up to ensure that the complaint was  
adequately addressed.

**RESPONSE:** Not applicable.

**SPONSOR:** Robert O'Brien

**MOLOKAI PUBLIC UTILITIES, INC.'S RESPONSES TO THE DIVISION OF  
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**DOCKET NO. 2009-0048**

**CA-IR-66**

**Ref: Response to CA-IR-10.**

- a. Please provide a detailed discussion of the purposes of Kaluakoi Water, LLC and Kaluakoi Sewer, LLC.

**RESPONSE:**

Kaluakoi Water, LLC is the legal entity which owns MPU. It does not conduct any utility or other operations. Kaluakoi Sewer, LLC is a legal entity which owns MOSCO. It also does not conduct any utility or other operations.

- b. Please discuss whether these companies benefit from any resources, such as labor or administrative support, from the Commission regulated companies or affiliates that are currently charging the regulated companies.

**RESPONSE:**

Kaluakoi Water, LLC and Kaluakoi Sewer, LLC are holding companies and, as such, have no part to play in the daily operations of the utilities. They do not receive a benefit from resources of the Commission regulated companies or affiliates.

1. If not, please provide a detailed discussion of how these companies are operated and maintained.

**RESPONSE:**

The two companies are holding companies and are maintained as such. There are no other operations or

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**CA-IR-66 (cont.)**

purposes of the two companies and, therefore, there are no transactions for either company.

2. If not, please provide a copy of the financial statements for these affiliates.

**RESPONSE:** There are no financial statements for either company.

- c. If these companies do benefit from association with any Commission regulated company or affiliate that allocates costs to a Commission regulated company, please identify those resources and please provide copies of evidence that supports that all costs associated with those resources are properly recovered from Kaluakoi Water and Kaluakoi Sewer companies.

**RESPONSE:** Not applicable, see response to parts a and b above.

**SPONSOR:** Robert O'Brien

**MOLOKAI PUBLIC UTILITIES, INC.'S RESPONSES TO THE DIVISION OF  
CONSUMER ADVOCACY'S FOURTH SUBMISSION OF INFORMATION REQUESTS**

**DOCKET NO. 2009-0048**

**CA-IR-67**

**Ref: Response to CA-IR-14.**

- a. Please provide the net operating balance that would exist of the years ended 6/30/09 and 6/30/10 if the Company were on a stand alone basis.

**RESPONSE:**

The Company does not have specific tax data for the fiscal years ended June 30, 2009 or June 30, 2010 and therefore cannot provide the requested data. The Company's portion of the consolidated tax returns will not be available until each tax return is completed and filed.

- b. Please confirm that the net operating balance, if the Company were on a stand alone basis, would and/or could be used to reduce the income tax liability.

**RESPONSE:**

It is confirmed that, if the Company were on a stand alone basis, a net operating loss ("NOL") for income tax purposes in one year could be used to reduce income tax payments in future years. The Company believes this is because the NOL results from the fact that the Company would not have had sufficient revenues in those prior years to provide taxable income and that operations were funded by the shareholder. The shareholder is therefore provided the benefit of offsetting future operating revenues in excess of



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**CA-IR-67 (cont.)**

expenses (taxable income) against these prior NOLs that  
were funded by the shareholder.

**SPONSOR:** Robert O'Brien

**MOLOKAI PUBLIC UTILITIES, INC.'S RESPONSES TO THE DIVISION OF  
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**DOCKET NO. 2009-0048**

**CA-IR-68**

**Ref: Response to CA-IR-15.**

a. If not already provided, please provide copies of the appropriate and applicable tax schedules that show the following:

1. tax depreciation taken on all plant currently reflected in the Company's plant in service balance; and

**RESPONSE:**

Attachment CA-IR-28a provides a listing of the plant per books and the plant used for tax depreciation.

2. no item currently in the Company's plant in service was written off in its entirety.

**RESPONSE:**

The Company does not have a document that shows that, "[n]o item currently in the Company's plant in service was written off in its entirety". The Company understands that the data on Attachment CA-IR-28a in columns 4 to 6 reflects the MPU plant depreciated for tax purposes and, to the best of the Company's knowledge, no MPU plant item was written off in its entirety, except for the fully depreciated assets in the amount of \$4,931,896 on line 1 which was fully depreciated for both book and tax purposes as reflected in column 3 and column 6.

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**CA-IR-68 (cont.)**

- b. If the Company cannot provide a copy of any schedule that illustrates that all plant reflected in the Company's plant in service are being properly depreciated for tax purposes because of the filing of consolidated tax returns, please provide copies of the applicable reconciliation schedules that illustrate the relationship between the tax depreciation schedules filed with the IRS and the Company's books.

**RESPONSE:** See Attachment CA-IR-28a for a comparison of the plant per the Company's books and per the schedule included for the Company in the consolidated income tax return. Please also see the response to CA-IR-28 and particularly Attachment CA-IR-28b for an explanation of the reason for the differences reflected on Attachment CA-IR-28a.

**SPONSOR:** Robert O'Brien

**MOLOKAI PUBLIC UTILITIES, INC.'S RESPONSES TO THE DIVISION OF  
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**DOCKET NO. 2009-0048**

**CA-IR-69**

**Ref: Response to CA-IR-19.**

- a. Please explain why the audited report excluded the adjustment of \$14,953.

**RESPONSE:**

We are working with the auditors to provide the information requested, but will not be able to provide a response until the week beginning November 30, 2009.

- b. Please explain what caused the need for the adjustment of \$14,953.

**RESPONSE:**

We are working with the auditors to provide the information requested, but will not be able to provide a response until the week beginning November 30, 2009.

**SPONSOR:**

Robert O'Brien

**MOLOKAI PUBLIC UTILITIES, INC.'S RESPONSES TO THE DIVISION OF  
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**DOCKET NO. 2009-0048**

**CA-IR-70**

**Ref: Response to CA-IR-19 and 25.**

- a. Please provide copies of any assessment or study of the remaining useful lives for each plant item that is fully depreciated. If not evident in the assessment or study, please provide the basis for the assessment.

**RESPONSE:**

The Company has not made any assessment or study regarding the remaining useful lives for the \$4,931,896 of fully depreciated plant.

- b. If it is the Company's assertion that no such assessment or study has been done (as it appears that the response to CA-IR-25a. appears to do), please explain why, with a balance of almost \$5 million of fully depreciated plant, the Company deems it acceptable not to reassess the reasonableness of its plant and depreciation assumptions.

**RESPONSE:**

See response to CA-IR-25a.2. The Company believes those reasons are still valid for not reassessing the plant and accumulated depreciation.

**SPONSOR:**

Robert O'Brien

**MOLOKAI PUBLIC UTILITIES, INC.'S RESPONSES TO THE DIVISION OF  
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**DOCKET NO. 2009-0048**

**CA-IR-71**

**Ref: Responses to CA-IR-22 and 23.**

- a. Please indicate whether any of the items to be added in 2009 or 2010 are items that are expected to provide use or usefulness to anyone besides the Company's customers. For example, will the Well 17 House Cooling Equipment provide benefits to other customers or individuals who receive water from Well 17?

**RESPONSE:**

The plant items to be added in fiscal years ended June 30, 2009 and June 30, 2010 will not provide benefits to customers or individuals other than those customers or individuals that are provided service under the Company's tariff rates and conditions.

- b. If any of the items will provide use or usefulness to other users besides the Company's customers, please identify each such item and the means by which the costs associated with the item will be allocated to those other users.

**RESPONSE:**

Nor applicable, see response to part "a" above.

- c. For the valve replacement, please state the age of the existing valve and how it was determined that replacement was required.

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**CA-IR-71 (cont.)**

**RESPONSE:** The existing valve was installed in the early 1980s.

1. Please indicate the expected duration of the project.

**RESPONSE:** Under current conditions, it is likely that the acquisition and installation of the replacement valve will not be completed by June 30, 2010 and therefore should be removed from the Company's proposed additions for the test year.

2. Please indicate when the bidding process is expected to be completed.

**RESPONSE:** Not applicable, see response to Part "c.1" above.

3. Please indicate the possibility of the project being deferred.

**RESPONSE:** Not applicable, see response to Part "c.1" above.

- d. For the Well 17 House Cooling Equipment, please how the item will improve the efficiency and operation of the engine.

**RESPONSE:** The Well 17 House Cooling Equipment will allow the engine to operate in a normal manner as it was intended. Before the installation of the House Cooling Equipment, the engine was operated with the doors and windows of the pump room open and relying on trade winds for cooling during certain parts of the day. This required monitoring and at times

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**CA-IR-71 (cont.)**

minor maintenance by employees during normal site visits. After the installation, the cooling equipment will allow for the normal operation of the engine and will not require the ventilation provided by the doors and windows.

1. Please estimate the impact that that item will have on the operating and maintenance expenses associated with Well 17 and attendant plant.

**RESPONSE:**

There will be minor savings in maintenance and a small reduction in employee time to ventilate the area. This small "savings" will likely be offset by the additional costs for operating the cooling equipment, neither of which have been reflected in the test year.

2. Please identify the adjustments that were made where those adjustments are referenced or illustrated in the Company's application. If no such adjustments were made, please explain why.

**RESPONSE:**

No adjustments were made, see response to part d.1 above.

- e. The Company indicates that it will be acquiring a lateral replacement tool.



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**CA-IR-71 (cont.)**

1. Please indicate the current status of procuring this item.

**RESPONSE:**

The Company expects to purchase the lateral replacement tool in the first quarter of 2010.

2. Please provide the Company's estimate of the affect that this item will have on the Company's operating and maintenance expenses.

**RESPONSE:**

This item will make it more efficient, in future instances when the Company will need to replace a lateral that runs under a road or highway. Currently the Company must cut and dig the road surface for such replacements.

3. Please identify the adjustments that were made where those adjustments are referenced or illustrated in the Company's application. If no such adjustments were made, please explain why.

**RESPONSE:**

There were no adjustments made to the test year data as presented because there were no instances where a lateral needed to be replaced during the test year.

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**CA-IR-71 (cont.)**

4. Please confirm that this item will be of use or usefulness to other regulated utility companies that may need to repair lateral leaks.

**RESPONSE:** The Company has no plans to permit the lateral replacement tool to be used by any other regulated utility company.

- f. The Company intends to expend \$20,000 on a backwash water recycle system.

**RESPONSE:** Under current conditions, it is unlikely that the backwash recycle system will be acquired and installed prior to the end of the test year, June 30, 2010. As such, the Company will remove this plant addition from its test year additions.

1. What is the forecasted impact on operating and maintenance expenses once this item is in place.

**RESPONSE:** Not applicable, see response to part "f" above.

2. Please indicate the expected length of the construction period and when the construction is expected to start.

**RESPONSE:** Not applicable, see response to part "f" above.

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**CA-IR-71 (cont.)**

g. The Company assert that it will expend \$30,000 on meter reading equipment and meters.

1. Please identify the expected length of the entire process forecasted for this capital item.

**RESPONSE:**

The meters should be acquired and in place by the end of the test year, June 30, 2010.

2. Please indicate when the bidding/procurement process is expected to begin.

**RESPONSE:**

The Company completed its research and selection process in 2007 and 2008.

3. Please estimate the impact that the meter reading equipment will have on operational expenses. Please provide copies of the workpapers and assumptions used to determine the response to this question.

**RESPONSE:**

The Company estimates that the installation of the new meters will reduce the current meter reading time from approximately twenty-four hours per month (three employees for eight hours for one day) to approximately four hours per month. The Company will utilize the twenty hours per month to focus on repair and maintenance operations activities.

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**CA-IR-71 (cont.)**

4. Please identify the schedules where the impacts are reflected on test year estimates. If no such impacts are clearly reflected on the Company's test year estimates, please provide copies of the workpapers that illustrate how these adjustments were considered.

**RESPONSE:**

There will be no impact on the expenses in the test year. Since the twenty hours per month saved from meter reading will be used for repair and maintenance activities, the payroll expense was not changed.

**SPONSOR:** Robert O'Brien

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**CA-IR-72**

**Ref: Response to CA-IR-22.**

In its response, the Company indicates that the backwash water will be recycled into the agriculture water system.

**RESPONSE:**

See response to CA-IR-71f. This backwash water system will not be placed in service during the test year.

a. Please identify where in the application this agriculture water system is identified.

**RESPONSE:**

The backwash water system was not identified in the application or in test year revenue or expense because it represented an activity that would have facilitated the disposition of the backwash water from the WTP. Currently the backwash water, which cannot be used for any agricultural purpose, is removed from the WTP and delivered to barren land, owned by MPL and not the Company, where it is disbursed at no cost to the Company. The Company was attempting to develop a process to separate parts of the backwash water to create a product that could be used for agricultural purposes and would attempt to develop a market for that water when it was useable. The Company did not have any expectations that it would have a useable product and a customer for that product during the test year.

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**CA-IR-72 (cont.)**

- b. If this system is not clearly identified, please explain why not.

**RESPONSE:** See response to part "a" above.

- c. Please confirm that the costs and revenues associated with this agriculture water system are included within the application. If not, explain why not.

**RESPONSE:** They are not. See response to part "a" above.

**SPONSOR:** Robert O'Brien

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**CA-IR-73**

**Ref: Response to CA-IR-23.**

- a. The Company indicates that there is no deferred tax balance because book depreciation exceeds tax depreciation. Please discuss when the Company last reviewed its book and tax depreciation processes to ensure that it is being properly implemented.

**RESPONSE:**

The Company has not conducted a comparative review of the book and tax depreciation for the last several years. As shown on response to CA-IR-28a and in the response to CA-IR-28, particularly Attachment CA-IR-28b, it is obvious that the tax depreciation has not been properly implemented.

- b. If the Company did not initially include the negative ADIT amount in its estimates, please explain why it intends to do so now.

**RESPONSE:**

The Company does not intend to include the negative ADIT in its rate base calculations. The response to CA-IR-23b states that, "The Company will support using these amounts as an addition to rate base ...". This was meant to address the contention that the Company did not include an ADIT amount. Further, as described in the response to CA-IR-28 and particularly Attachment CA-IR-28b, the Company

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**CA-IR-73 (cont.)**

proposes to remove all tax depreciation and income tax expense elements from the determination of revenue requirements in this proceeding.

- c. Please provide copies of schedules that show the annual book and tax depreciation recorded and/or reported for the ten largest items supporting the negative ADIT balance.

**RESPONSE:**

See Attachment CA-IR-28a for the comparison of the book and tax assets and Exhibit MPU 9.6 for the calculation of the pro forma tax depreciation and accumulated deferred income tax calculations.

**SPONSOR:**

Robert O'Brien



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**CA-IR-74**

**Ref: Response to CA-IR-24.**

- a. Please discuss the accounting controls in place to ensure that only costs that should be capitalized are reflected in the costs recorded as plant in service for the Company.

**RESPONSE:**

Company procedures call for bidding where possible and a purchase order system for approval of cash expenditures. The approving Supervisor indicates whether an item is a fixed asset or an expense. Accounting would consider whether an existing asset is already capitalized and any repair or replacement would be expensed unless the "original" asset is fully depreciated and/or pulled from service. Clarification is sought with appropriate person(s) before a payment is made. In some instances, a major plant addition, such as the work on the Water Treatment Plant, will contain some items that are of small dollar value but are part of the total capital addition and, therefore, would be capitalized with the total plant addition.

- b. The Company did not number its pages, but in its response, there appears to be certain items that appear to be inappropriately capitalized as plant in service for the Company. Please explain. For instance, on various

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**CA-IR-74 (cont.)**

invoices, certain items identified only as supplies are being capitalized. It is unclear how these amounts can be justified to be part of a capital expense.

**RESPONSE:** See response to part a above.

**SPONSOR:** Robert O'Brien

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**CA-IR-75**

**Ref: Response to CA-IR-27.**

CA-IR-27 requested information on how plant additions were financed and where the applicable obligations are reflected in the Company's filing. The Company's response indicates that the Company's parent provided the funds, but does not indicate where those obligations are identified. Please identify the financial instrument, the terms of that instrument and where it is located.

**RESPONSE:**

The funds provided by the Company's parent were provided in the form of advances and were reflected in the intercompany accounts recorded on MPU's accounting records in the "Due to Affiliates" account.

**SPONSOR:**

Robert O'Brien

**MOLOKAI PUBLIC UTILITIES, INC.'S RESPONSES TO THE DIVISION OF  
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**CA-IR-76**

**Ref: Responses to CA-IR-28 and 29.**

- a. Please confirm that the Company has reconciled the apparent differences between the book and tax records for the items identified in the response to CA-IR-28 as well as the exceptions related to the Hawaii State Capital Goods Excise Tax Credit identified in CA-IR-29. Please provide those reconciliations if not already provided.

**RESPONSE:**

See the response to CA-IR-28 and particularly Attachment CA-IR-28b for an explanation of the reason for the differences reflected on Attachment CA-IR-28a, which also result in the differences in the HCGETC.

- b. If not already explained, please discuss the likely cause of these differences.

**RESPONSE:**

See response to part a above.

**SPONSOR:**

Robert O'Brien

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**CA-IR-77**

**Ref: Response to CA-IR-35.**

- a. The Company indicates that the employees presently pay only for the family portion of dental coverage. Please provide the options that are available for the Company regarding Company and Employee Pay for each of the various benefits.

**RESPONSE:**

Employees only have one option, to have dental coverage or not. We are covered by HDS Small Business Plan, normally covering 2-9 employees.

- b. For each of the options identified above, please provide the premiums associated with each.

**RESPONSE:**

Premiums for 2009 renewal: One Party: \$29.84; Two Party \$59.68; Three Party + \$90.15 per month.

- c. Please discuss why the Company has not selected plans that require some employee contribution to benefit coverage (besides the family portion of dental coverage).

**RESPONSE:**

This is the only plan the Company qualifies for. Company Policy and the existing employment contracts with employees provide for the payment of this benefit. Over the past five years, the Company has investigated a number of options to its current medical scheme; a scheme sponsored

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**CA-IR-77 (cont.)**

by the union and one other. Both schemes were of higher  
cost to the Company

**SPONSOR:** Robert O'Brien

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**CA-IR-78**

**Ref: Response to CA-IR-43.**

- a. In its response to CA-IR-43, the Company identifies 14 vehicles being used. Please identify which vehicles are solely attributable to MPUI.

**RESPONSE:**

The following chart shows the five vehicles used by MPU

License No.	VIN	Make	Type	Yr/Model	Used by	MPU use
MYL927	1FMDU34X1TZB86349	FORD	MPVH	1996	Used by Marshall	0.949798
967MDB	1FTZR45E44PA39048	FORD	PKUP	2004	Used by Paki	0.450003
631MDE	1FTZR45E34TA15587	FORD	PKUP	2004	Used By Bernard	0.700035
540TNZ	3FTHF36F7VMA63745	FORD	PKUP	1997	Used by Rex - S-16	0.450003
543TNZ	3FTHF36F0VMA62470	FORD	PKUP	1997	Used by Sonny - S12	0.450003

- b. If none of the vehicles are solely attributable to MPUI, please explain why these are provided in the response to the information request.

**RESPONSE:**

Information was provided on all vehicles used by Water Companies' employees along with information on other vehicles. As shown in response to part "a" above, only five vehicles are used by and charged to MPU, with the percent used by MPU shown on the far right of the chart above.

- c. Please explain why it is reasonable to have a vehicle for virtually every employee.

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**CA-IR-78 (cont.)**

**RESPONSE:** Due to the nature of the job, distance from locations and the need to drive to different locations, employees are assigned a vehicle. On occasion, they may share vehicles to a location.

- d. Please explain why the costs associated with 14 vehicles should be allocated to MPUI customers.

**RESPONSE:** The costs for only five vehicles are allocated to MPU based on breakdown of payroll hours charged to each Water Company. A separate vehicle is used only for service provided by WOM and therefore the costs for that vehicle are charged only to WOM. The other vehicles are charged to MPL departments and are not charged to MPU, WOM or MOSCO.

- e. If not already discussed, please explain why there are two vehicles that appear to be on Oahu.

**RESPONSE:** The two vehicles on Oahu belong to MPL, parent company, for use of the the staff who are based at that location. Neither their capital cost nor expenses resulting from their use are charged to MPU, WOM or MOSCO.

**SPONSOR:** Robert O'Brien



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**CA-IR-79**

**Ref: Response to CA-IR-48.**

- a. Please explain how the schedules provided in response to CA-IR-48 relate and support the insurance expense projection of \$13,000 for the test year.

**RESPONSE:**

Insurance is based on prior year(s) insurance for property & vehicles. MPU only charged its allocated cost. The Company is working to provide the information requested, but will not be able to provide a response until the week beginning November 30, 2009.

- b. Please discuss whether the insurance covers any properties that have recently been targeted to be closed or already closed. In other words, even if a property is not open or conducting active business, please discuss whether that property should still be (or is) insured.

**RESPONSE:**

Insurance was drastically cut on all Company property. Closed properties are still insured for liability and for losses to improvements.

1. If so, please discuss why it appears that the schedule only allocates insurance expense to operations that are still active and continuing.

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**CA-IR-79 (cont.)**

**RESPONSE:** Insurance is allocated based on the property and vehicles insured. The bulk of insurance costs go directly to MPL and are not charged to MPU, WOM or MOSCO.

2. If not, please explain whether, if any insurable event occurs on one of those non-operating properties, the Company's affiliates will seek recovery from the insurance companies.

**RESPONSE:** If any event occurs on one of those non-operating property, the Company's (MPUI's) parent MPL will seek to recover from the insurance companies based on the limits of the corporate policies.

**SPONSOR:** Robert O'Brien

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**CA-IR-80**

**Ref: Response to CA-IR-51.**

- a. Please discuss the details necessary to support travel expenses. Based upon review of the supporting detail, it is not clear what detail is available to support the business nature and purpose of the expense.

**RESPONSE:**

Determination of the business nature and the related authorization is made before travel occurs.

- b. As an example, please identify the business nature associated with the trip to Kauai Beach Hotel and Resort for three nights in 2006 and how it relates to the Company.

**RESPONSE:**

Mr. Harold Edwards, at that time Vice President of Water Operations, went to Kauai to inspect a water treatment system being installed that was similar to the one being contemplated for MPU. The investigation resulted in Mr. Edwards being able to negotiate significant savings on MPU's subsequent acquisition and installation of the WTP.

1. In addition, please confirm that only the expenses associated with Mr. Edwards were paid for on that trip.

**RESPONSE:**

The above statement is confirmed.

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**CA-IR-80 (cont.)**

2. Please provide copies of the documentation that supports the response to part (1) above.

**RESPONSE:** The Company does not have any additional information related to this charge.

**SPONSOR:** Robert O'Brien

**MOLOKAI PUBLIC UTILITIES, INC.'S RESPONSES TO THE DIVISION OF  
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**CA-IR-81**

**Ref: Application.**

- a. Please identify each of the cost containment measures that the Company has implemented for labor and non-labor expenses in each of the past five years.

**RESPONSE:**

Company has not paid any employee raises since 2002 except for (two) employees taking on increased responsibilities or achieving additional technical credentials. In addition, the utilities, MPU, WOM and MOSCO are currently operating with one employee less than normal. Finally, purchases have been deferred where they will not impact the quality, safety and reliability of the delivery of water or services.

- b. If the Company has not implemented any such measures, please explain why not.

**RESPONSE:**

Not applicable, see response to part a above.

**SPONSOR:**

Robert O'Brien

**MOLOKAI PUBLIC UTILITIES, INC.'S RESPONSES TO THE DIVISION OF  
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**CA-IR-82**

**Ref: Application – Rate Design.**

- a. Please discuss whether the Company has considered tiered usage rates to encourage conservation. If such discussions have occurred, please indicate the outcome of those discussions.

**RESPONSE:**

The Company has considered tiered rates for conservation in the past. In fact, the Company proposed tiered rates in its application to the PUC in the 2003 rate case. MPU's proposal was turned down by the PUC, and only one rate for usage in excess of 5,000 gals per day was allowed. Since implementation of the tiered rates, MPU has found that only those consumers who conduct farming enterprises on subdivided residential lots at Kaluakoi qualify for the conservation rate. As farming is a prohibited practice on these lots under the subdivision approval granted to the developer, MPU has decided not to encourage farming use, and in fact to attempt to prevent it, in its latest application.

- b. Please provide the data relied upon in evaluating tiered rates.

**RESPONSE:**

See response to CA-IR-82a

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**CA-IR-82 (cont.)**

- c. If not already provided in response elsewhere, please provide the monthly usage data for each of the past 24 months by customer meters and by consumption levels (i.e., consumption itemized by tiered thresholds).

**RESPONSE:** The Company is working to accumulate the data to provide the information requested, but will not be able to provide a response until the week beginning November 30, 2009.

**SPONSOR:** Robert O'Brien

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**CA-IR-83**

**Ref: Application.**

- a. If not already provided elsewhere, please confirm that there are no known changes in any of the developments or customer areas that might affect the test year estimate of customers or usage.

**RESPONSE:**

The Company is not aware of any changes in any of the developments or customer areas that might affect the test year estimate of customers or usage, except the significant reduction of customer usage that the Company has experienced since the implementation of the emergency rate increase granted by the Commission in its Order Approving Temporary Rate Relief issued on August 14, 2008.

- b. If additional data has become available beyond the application or any other response, please provide updated data on usage and customer count.

**RESPONSE:**

See Confidential Attachment CA-IR-54 (Part G), filed under and subject to Amended Protective Order, issued in this docket on November \_\_, 2009, for updated customer usage data through October 2009.

**SPONSOR:**

Robert O'Brien



CERTIFICATE OF SERVICE

I (we) hereby certify that copies of the foregoing document were duly served on the following parties, by having said copies delivered as set forth below:

MS. CATHERINE P. AWAKUNI Executive Director Department of Commerce and Consumer Affairs Division of Consumer Advocacy 335 Merchant Street, Suite 326 Honolulu, Hawaii 96813	3 copies Hand Deliver
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Attorneys for the COUNTY OF MAUI

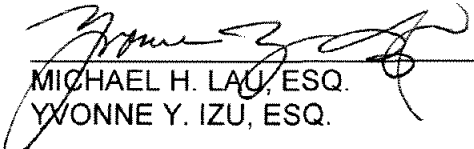
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Attorney for WEST MOLOKAI ASSOCIATION

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Attorney for MOLOKAI PROPERTIES LIMITED

DATED: Honolulu, Hawai'i, November 23, 2009.

  
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